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REPORT TO THE CONGRESS



More Reliable Data Needed As A Basis For Providing Federal Assistance To Economically Distressed Areas B-133782

Department of Commerce
Department of Labor

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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MAY 10 1977



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D. C. 20548

B-133182

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our findings on more reliable data needed as a basis for providing Federal assistance to economically distressed areas. The report deals with the inadequacy of statistical data furnished by the Departments of Commerce and Labor that are used in qualifying redevelopment areas for assistance under the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121).

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Commerce; and the Secretary of Labor.

A handwritten signature in cursive script, reading "James B. Peato".

Comptroller General
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

The Economic Development Administration, Department of Commerce, provides financial, technical, and planning assistance to aid long-range economic development of distressed areas. As authorized by law, the Secretary of Commerce designates areas eligible for assistance on the basis of statistical data developed by the Departments of Labor and the Interior and the Bureau of the Census. (See p. 8.)

For the most part, the Economic Development Administration's ability to identify properly areas eligible for assistance hinges on the soundness of unemployment and income data. The designations of economic distress may influence the distribution of monies and benefits from other Federal agencies. For example, firms located in areas of high unemployment are eligible for Federal procurement preference. (See p. 10.) Therefore the General Accounting Office (GAO) made a review of the currentness and accuracy of the statistical data used for determining an area's eligibility for assistance.

FINDINGS AND CONCLUSIONS

Unemployment and income data used by the Economic Development Administration in determining the eligibility of local areas are not current and are of questionable accuracy. The data should be improved to ensure realistic economic appraisals of those areas. GAO questions whether the areas of the United States experiencing economic distress, as indicated by high unemployment and/or low income levels, are, in all instances, being properly identified. (See p. 14.) GAO did not attempt to evaluate the appropriateness of unemployment and income levels as criteria for eligibility.

Unemployment data

The questionable reliability of the unemployment data is attributable to conceptual weaknesses in the methodology for estimating unemployment as well as to problems in developing unemployment rates for small areas. (See p. 14.) This report discusses these weaknesses which raise

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considerable doubt as to the accuracy and reliability of the unemployment estimates made for small and rural areas. (See pp. 18 to 40.)

The many problems associated with the development of current and reliable statistical data are not subject to ready solution. This is especially true of small areas--characteristically redevelopment areas--where statistical data normally are not gathered on a continuing basis and where the costs of developing meaningful statistical data are significantly higher than those connected with developing data on a national or regional basis. (See p. 10.)

Within recent years the Department of Labor has initiated and sponsored studies designed to produce information which could be used to improve the methodology established for estimating unemployment in State and local areas. Except for a modification with respect to one major element of this methodology, however, the studies have not resulted in an improved methodology, and it remains basically the same as that introduced in 1960.

GAO evaluated the unemployment-estimating practices in two States. In both States the prescribed methodology was subjected to varied degrees of modification and was not applied uniformly. State agencies are severely handicapped in their attempts to develop reliable unemployment rates using this methodology, because of the lack of current labor market data for local areas. (See p. 27.)

Further study is required to determine the extent to which the practices and experiences of the States included in GAO's review are indicative of those in other States. GAO believes, however, that, although they may vary in degree, the problems experienced by the two States are characteristic of those in many other States, because of the general lack of labor market data for small and rural areas. (See p. 27.)

Income data

Family income data for States and local areas are available only from census information gathered once every 10 years. There are two pronounced drawbacks to the use of these data in determining current eligibility.

--They do not provide a reasonably current measure of income.

--The preciseness and reliability of the data developed for small areas is questionable. (See p. 48.)

Because current family income data are not available, the Economic Development Administration is not able to make the annual review of area eligibility based on income that is required by the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121) or to base its determinations of maximum grant rates on recent data.

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GAO believes that the Economic Development Administration should consider the feasibility of using per capita income data (developed by the Office of Business Economics, Department of Commerce) as one means by which income levels could be measured more frequently than every 10 years. Any departure from using median family income criteria, however, will require a change in legislation. The preciseness and reliability of the per capita income data has not been fully tested. GAO is not necessarily advocating the use of these data in their present form. (See p. 56.)

RECOMMENDATIONS OR SUGGESTIONS

GAO is making several recommendations designed to improve the system. For example:

- The Secretary of Labor should ascertain changes needed to improve unemployment estimates and to monitor State unemployment-estimating practices. (See p. 46.)
- The Secretary of Commerce should study the problems associated with developing current unemployment and income data, consider the use of the more current per capita income data, and recommend changes in legislation as warranted. (See p. 57.)

Other recommendations are contained on pages 46 and 57.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Labor said that--in line with GAO's recommendations and within the constraints of budget resources and staffing ceilings--it would take steps to ensure uniformity in the application of the prescribed estimating techniques and to improve the accuracy and comparability of data. The Department said also that it would consider the GAO report as part of the Department's evaluation of the unemployment-estimating procedures that currently was being made. (See p. 46.)

The Department of Labor agreed with GAO's recommendation that the findings of research studies on estimating unemployment should be converted into timely and meaningful action, where practicable and feasible, and that the Department should improve the review and monitoring procedures of the unemployment-estimating practices of the State employment security agencies. (See p. 47.)

- The Department of Labor said further that the improvements necessary in the methodology would be made by the end of fiscal year 1971 and would take account of GAO's findings as well as the findings of research studies

sponsored by the Department and by the affiliated State employment security agencies. (See p. 47.)

The Department of Labor noted that the reliability of estimating unemployment by using the prescribed estimating techniques tended to decrease for small areas. For many small, predominantly rural areas, the major problem is one of underemployment of available manpower rather than unemployment which the methodology is intended to measure. Because of this, the Department suggested that alternative approaches to measuring economic distress might be needed. (See p. 43.)

The Department of Commerce agreed, in principle, that it would be desirable to have more recent income information on a regular basis but stated that the costs of securing such information by duplicating Bureau of the Census procedures and techniques appeared prohibitive. By using other data sources, such as Office of Business Economics per capita income, however, the Economic Development Administration hopes to develop reasonably accurate income estimates. (See p. 56.)

Further, a work group is studying per capita income data, but much remains to be done before they can be used to measure area economic distress. (See p. 58.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Titles I through IV of the Public Works and Economic Development Act of 1965 expire at the close of fiscal year 1971. The House Committee on Public Works plans to conduct extensive hearings on the Economic Development Administration and its programs in mid-1971.

Also the Secretary of Commerce may seek changes in legislation on the basis of the review recommended by GAO of the problems associated with developing unemployment and income data.

GAO believes that this report will be useful to the Congress in considering these matters.

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- III Principal officials of the Departments of
Commerce and Labor having responsibility
for the activities discussed in this re-
port

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ABBREVIATIONS

- ARA Area Redevelopment Administration
EDA Economic Development Administration
GAO General Accounting Office
OBE Office of Business Economics

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CHAPTER 1

INTRODUCTION

The Economic Development Administration (EDA) uses various statistical data in determining the eligibility of areas for Federal assistance under the Public Works and Economic Development Act of 1965. We evaluated such statistical data on income and unemployment to ascertain whether they were accurate and current and whether they enabled EDA to effectively implement the eligibility criteria prescribed in the act.

SCOPE OF REVIEW

We reviewed the applicable laws, policies, regulations, procedures, and practices pertaining to determinations of area eligibility and discussed at considerable length the related problems and issues with officials of the Departments of Commerce and Labor. We also reviewed consultant reports on research studies concerning unemployment estimates for rural areas. Because of the principal involvement of the State employment security agencies in developing estimates of unemployment, we also reviewed the estimating procedures of two States and interviewed officials of employment security agencies of these States.

Our observations regarding the practices of the States are intended to highlight the problems in developing current and accurate unemployment estimates for small areas and not to focus attention on specific States. For this reason, the two States whose procedures we reviewed are not identified. We did not attempt to evaluate the appropriateness of unemployment and income levels as criteria for eligibility. Also we did not review the detailed information supporting the findings included in the consultant reports on studies of unemployment estimates.

ECONOMIC DEVELOPMENT ASSISTANCE

EDA was established pursuant to the Public Works and Economic Development Act of 1965 as a successor organization to the Area Redevelopment Administration (ARA). EDA's primary function is to aid in the long-range economic

development of areas and regions through the creation of new employment opportunities by developing new facilities and resources and expanding existing ones.

EDA provides financial, technical, and planning assistance through

- grants and loans to help build or expand public facilities,
- business development loans to private industrial and commercial firms and to local government agencies,
- technical assistance contracts and grants to help areas assess their needs for economic growth and plan specific projects, and
- planning grants to assist public bodies in drawing up and carrying out economic development programs.

As of October 31, 1970, EDA had approved the granting of financial assistance for 3,396 projects totaling about \$1.3 billion, comprising grants of about \$949 million and loans of \$359 million.

To be eligible for assistance, a project must be located in (1) an area designated by the Secretary of Commerce as a redevelopment area, (2) an area which the Secretary of Labor found to have been an area of substantial unemployment during the preceding calendar year (referred to as a Title I area), (3) an economic development district, or (4) an economic development region. A redevelopment area may be a county, a labor area, an Indian reservation, or a municipality having a population of 250,000 or more.

The majority of the redevelopment areas qualified by EDA for Federal assistance in fiscal year 1969 were counties made up of rural communities. Economic development districts must contain at least two redevelopment areas and either a redevelopment center or an economic development center. The development center must be an area or city of sufficient size and potential to foster the economic growth activities necessary to alleviate the distress of redevelopment areas within the district. Centers within redevelopment areas

have been termed "redevelopment centers." Economic development regions comprise multistate areas.

Section 401 of the act provides criteria by which redevelopment areas may qualify for assistance. These criteria include substantial and persistent unemployment, population loss due to lack of employment opportunity, low income, sudden rise in unemployment, and Indian lands. Redevelopment areas which meet the criteria under this section of the act are eligible for the full range of economic development assistance programs.

The act provides that the Secretary of Labor determine the rate of unemployment and provide the data to be used by the Secretary of Commerce in making determinations of substantial and persistent unemployment.

The act defines substantial and persistent unemployment as:

1. Unemployment of 6 percent or more during the latest calendar year.
2. An annual average rate of unemployment of at least 6 percent for one of the time periods specified in item 3 below.
3. An annual average unemployment rate of at least:
 - a. 50 percent above the national average for 3 of the preceding 4 calendar years.
 - b. 75 percent above the national average for 2 of the preceding 3 calendar years.
 - c. 100 percent above the national average for 1 of the preceding 2 calendar years.

The annual average unemployment rates used in 1969 for designating areas of substantial and persistent unemployment are as follows:

Calendar year	National average unem- ployment rate	50% above	75% above	100% above
1965	4.5	6.8	7.9	9.0
1966	3.8	5.7	6.7	7.6
1967	3.8	5.7	6.7	7.6
1968	3.6	5.4	6.3	7.2

Also section 102 of the act provides for the designation of areas suffering from substantial unemployment, which is statutorily defined as 6 percent or more during the preceding year. These areas (Title I areas) are eligible only for public works and development facilities grant assistance and not for public works or business development loans.

Eligible areas must indicate their desire to participate in the EDA program by making a formal request for designation and by submitting an overall economic development program.

EDA makes determinations of area eligibility on the basis of data supplied by the Manpower Administration, Department of Labor; the Bureau of the Census, Department of Commerce; and the Bureau of Indian Affairs, Department of Interior.

As of February 2, 1970, 943 areas were qualified under the various qualifying criteria, as follows:

Title I areas	38
Redevelopment areas:	
Unemployment	412
Population loss	103
Unemployment and population loss	48
Income	150
Unemployment and income	58
Indian reservations	94
Sudden rise in unemployment	27
Other	<u>13</u>
Total	<u>943</u>

EDA uses unemployment and income data also to establish maximum grant rates for eligible areas. As of October 1970 the following criteria were used for making grant rate determinations.

Maximum grant rate (percent)	Needed to qualify for rate	
	Median family <u>income</u>	or <u>Annual average unemployment rate</u>
80	\$1,600 or less	12 percent or higher
70	\$1,601 to \$1,800	10 to 11.9 percent
60	\$1,801 to \$2,000	8 to 9.9 percent or double the U.S. average in 3 of the past 4 years
50	Over \$2,000	Under 8 percent and not double U.S. average during 3 of the past 4 years

The act requires EDA to conduct an annual review of all designated areas to determine whether previously qualified areas continue to meet the statutory criteria. The review is made to determine also the maximum grant rate for the following year.

MEASURING ECONOMIC DISTRESS ON BASIS OF
UNEMPLOYMENT AND INCOME

Under both EDA and ARA, area designations have been based principally on statistical information on unemployment and income gathered by the Bureau of the Census and the Department of Labor. Of the 943 EDA redevelopment and Title I areas as of February 1970, 685, or about 73 percent, were designated on the basis of high unemployment or low median family income and 48, or 5 percent, were also designated, in part, on the basis of high unemployment. For the most part, therefore, EDA's ability to properly identify those areas of the country which are eligible for EDA assistance hinges on the soundness of the unemployment and income data.

Also EDA designations may influence the geographical distribution of funds of other Federal agencies. For example, under the provisions of part C of the Manpower Development and Training Act of 1962, as amended (42 U.S.C. 2610a), the Secretaries of Labor and of Health, Education, and Welfare are authorized to provide a supplementary program of training and training allowances for unemployed and underemployed persons residing in areas designated as redevelopment areas by the Secretary of Commerce. Furthermore, Federal procurement preference eligibility is authorized for firms located in areas of high unemployment under Defense Manpower Policy 4, revised, and Executive Order 10582 implementing the Buy American Act.

Judging from observations made during our review, the problems associated with the development of current and reliable statistical data by which to measure economic distress are many. We recognize that these problems are not subject to simple solutions. It is especially true of small areas--characteristically EDA redevelopment areas--where statistical data normally are not gathered on a continuing basis and where the costs of developing meaningful statistical data are significantly higher than those connected with developing data on a national or regional basis.

The concepts and definitions used by the Department of Labor and affiliated State employment security agencies in measuring unemployment on a local-area basis are identical with those used in estimating national unemployment.

Because of cost factors, however, the procedures used to develop the unemployment data differ.

National unemployment estimates, unlike the State and local estimates, are based on surveys of about 50,000 households throughout the country. The households are scientifically selected each month for visits by interviewers to gather information on the job-holding and job-seeking activities during the week preceding the interview. The national unemployment estimates, which are those quoted in the news media, are more commonly known than are local area estimates.

The Department of Labor has developed a methodology for measuring current unemployment of local and State areas that makes use of labor market data developed in administering the Federal-State employment security programs. This methodology was initially designed for large metropolitan labor areas; however, it was adopted later for use in estimating unemployment in small areas when it became evident that such information had to be developed to enable the Department to meet its responsibilities set by legislation for economic development programs. The methodology, contained in the "Handbook on Estimating Unemployment" and the "Handbook on Development of Basic Labor Market Information for Small Areas," is basically the same as that developed in 1960.

A modification with respect to one major element of the methodology--estimating unemployment among entrants and reentrants--was implemented in mid-1965 to take into account the structural changes in youth unemployment which had occurred since the development of the methodology. Within recent years the Department has initiated and sponsored several additional studies designed to produce information which could be used to improve the methodology; however, the studies completed to date have not yet resulted in an improved methodology. The unemployment estimates are developed by the State employment security agencies. Data for about 150 major labor areas and for those small areas which have an unemployment rate of 6 percent or more are furnished to the Department of Labor.

The Manpower Administration is responsible for establishing and issuing policies, procedures, and regulations to

State employment security agencies for ensuring effective, efficient, and economical operation of the program and for assisting State agencies in meeting problems peculiar to their localities. The Department makes funds available to the States for the administration of the employment security program on the basis of their budget requests and of the Department's determination of the amount necessary for the proper and efficient administration of the employment security program. Department officials informed us that staff resources available to the States for the unemployment rate estimating program amounted, on the average, to less than one person for each State.

The only median family income data available for local areas are those developed as part of the census of population, conducted once every 10 years. Although some consideration has been given to the development of a system by which annual changes in median family income could be determined, to meet the annual review requirements of the legislation, little if any progress has been made toward implementing such a system.

The concern which we express in the following sections of this report regarding the soundness of the statistical data used in determining area eligibility is not without precedent. During the 10-year period of the administration of the Area Redevelopment Act and the Public Works and Economic Development Act, members of the Congress, Federal and State officials, and other interested persons have expressed similar concern. Discussions with officials of the Department of Labor and a former ARA official and our review of testimony by Department officials before congressional committees indicate to us that the available statistical data on income and unemployment were never considered to be fully satisfactory for the purpose of area designation.

The President's Committee to Appraise Employment and Unemployment Statistics (Gordon Committee) commented, in its final report to the President dated September 1962, that:

"State and local labor-force statistics are neither as accurate nor as complete as those on a national level. To judge by comments made to the

Committee, there is probably no element in our system of labor-force reports which is more in need of improvement."

Although the need to improve the accuracy and reliability of the statistical data has been recognized for many years, we found that the situation had not improved. Detailed comments on the adequacy of the statistical data follow.

CHAPTER 2

NEED TO IMPROVE UNEMPLOYMENT ESTIMATES

We believe that the currency and accuracy of unemployment data used by EDA in determining the eligibility of areas for economic development assistance is questionable and should be improved to ensure a realistic appraisal of the economic conditions existing in such areas. It is questionable whether those areas of the country experiencing economic distress, as indicated by high unemployment and/or low income levels, are, in all instances, being properly identified.

The questionable reliability of the unemployment data is attributable to conceptual weaknesses in the prescribed methodology for estimating unemployment as well as to problems in developing the information necessary to compute the unemployment rates for small areas.

METHODOLOGY PRESCRIBED FOR ESTIMATING UNEMPLOYMENT

The methodology for estimating unemployment entails what is commonly referred to as a building-block approach. This approach requires estimates of (1) unemployment related to covered employment--that is employment coming under the Federal-State unemployment insurance program, (2) unemployment related to noncovered unemployment, and (3) unemployment related to entrants and reentrants to the work force.

Unemployed entrants are those persons who have entered the labor market for the first time and who have not found jobs. Unemployed reentrants are those individuals who have had prior work experience and who are now looking for work but who were out of the labor force for some time. The unemployment totals for the three blocks are added to arrive

at an estimate of all unemployment within an area. The unemployment rate estimate is computed by dividing the total unemployment estimate by the total work force estimate.¹

Since the work force comprises both employed and unemployed, it is necessary to develop information on area employment as well as unemployment. Employment data also is an essential factor in estimating unemployment for industries not covered by the Federal-State unemployment insurance programs.

Unemployment figures for covered workers are based on unemployment compensation claims data filed with the State employment security offices and on estimates of the number of unemployed workers who previously held jobs in covered establishments but who are not receiving benefits. Included are those who have been disqualified from receiving benefits, have exhausted their benefits, have delayed filing, or have never filed for benefits.

Unemployment estimates for noncovered workers are developed by (1) computing a covered unemployment rate and (2) applying this rate to employment estimates for noncovered workers on the basis of certain assumptions which have been made regarding the relationships between the unemployment rates for covered workers and those for noncovered workers.

The assumptions are based on 1957-59 studies by the Department of Labor of national unemployment conditions which showed that, nationally, there were fairly constant relationships in the incidence of unemployment between covered and noncovered workers.

The methodology prescribed by the Department includes the following predetermined unemployment rates for noncovered groups.

¹The term "work force" differs to some extent from the labor force concept used in measuring national unemployment rates. (See p. 22.)

<u>Noncovered groups</u>	<u>Relationships of noncovered to covered unemployment</u>
Small firms and railroads	Same rate
Nonprofit institutions	Constant rate of 2 percent of employment estimates
Domestics	Three fourths of the covered unemployment rate
Nonagricultural self-employed and unpaid family workers	One fifth of the covered unemployment rate
Agricultural wage and salary workers	Varies from equal to double the covered unemployment rate, depending on the month
Agricultural self-employed and unpaid family workers	One tenth of the covered unemployment rate
State and local governments	One third of the covered unemployment rate

The covered employment estimates used to compute the covered rate are based on information submitted quarterly by firms coming under the Federal-State unemployment insurance programs. Employment figures for noncovered groups--such as farms, small firms, domestics, and nonprofit institutions--are derived from various sources. These sources include the censuses of population and agriculture; social security information; and, in some instances, employment surveys made by the State employment security agencies.

Unemployment estimates for new entrants and reentrants to the work force are developed using an estimating technique prescribed by the Department of Labor in 1965. The technique is built on relationships noted in a study of available national data on new-worker unemployment for the 1950-64 period. The factors used to compute unemployment for a State or area are determined from the youth-population ratio, which is the ratio between the population aged 14 to 19 years and the population aged 20 years and over.

The accuracy and reliability of the unemployment rate estimate is contingent on the development of complete and accurate data for both employment and unemployment. Any inaccuracies in estimates of employment and unemployment for

covered workers are compounded further when the rate derived from these estimates is used in determining unemployment for noncovered workers.

WEAKNESSES IN THE METHODOLOGY FOR
ESTIMATING UNEMPLOYMENT

Conceptually, the accuracy of the estimates yielded by the methodology is based on the reasoning that most of the data necessary to provide a measure of unemployment in States and areas are available through the Federal-State unemployment insurance operations and that unemployment associated with industries covered by employment service operations accounts for most of the total unemployment. In support of this reasoning, the "Handbook on Estimating Unemployment" developed by the Department states that the unemployment insurance program covers about 75 percent of all wage and salary workers. The handbook states further:

"Relatively little data, in addition to those secured as a byproduct of employment security operations, are necessary in order to provide a reasonable measure of unemployment in States and areas at a minimum cost."

On the basis of several observations we made during our review, we have concluded that the methodology does not provide reasonably accurate estimates of conditions existing in small and rural areas for purposes of area designation.

- A substantial number of workers are employed in industries which are not covered by the unemployment insurance program. The employment security reporting system used as a base for estimating employment does not capture the labor changes for this sector of employment.
- The industries not covered by the unemployment insurance programs are characteristic of those found in small, predominantly rural communities. Such industries are made up of farms, agricultural products processing, small firms, nonprofit organizations, domestics, and State and local governments.
- Covered employment data are not developed on a resident-labor-force basis.

--The ratios between covered and noncovered unemployment and the factors for entrants and reentrants used in the methodology were developed on the basis of national samples and are not sensitive to the special economic conditions which may exist at the local-area level. Also the studies on which these ratios and factors were based are now old. Because EDA redevelopment areas generally involve single counties and because designations are based, in part, on unemployment in those counties, the recognition of local area economic conditions is essential to making the proper designation of areas.

Covered employment as a base for
measuring unemployment in rural areas

The Manpower Report of the President, transmitted to the Congress in March 1970, reported that in calendar year 1968 nearly 17 million wage and salary jobs--almost 25 percent of all jobs of this kind--were not covered by unemployment insurance. These jobs involved mainly workers on farms and in State and local governments, domestic service, non-profit organizations, agricultural products processing, and small firms. The Employment Security Amendments of 1970 (Pub. L. 91-373) will extend coverage to as many as 4.4 million more of these wage and salary jobs. Even with this legislation, however, a substantial number of jobs will remain uncovered.

The small, predominately rural areas, such as those which generally make up the counties designated by EDA as redevelopment areas, account for much of the noncovered employment and have high concentrations of industries not covered by the Federal-State unemployment insurance programs.

As an example, a research study report prepared for the North Carolina Employment Security Commission in May 1968 on the "Methodology for Estimating Unemployment in Rural Areas" pointed out that in 1965, 61 of the State's 100 counties had fewer than 50 percent of their workers covered and that, of these 61 counties, 26 fell below 30 percent and three below 10 percent.

The ability of the methodology to adequately measure unemployment is significantly impaired where covered employment does not represent a substantial part of the total employment. This is true for a number of reasons: (1) the methodology relies upon the employment and unemployment data obtained from covered establishments to lend substance and reliability to the work force and area unemployment estimates, (2) when the covered rate computed is based on a low percentage of workers, it might not be statistically reliable for estimating unemployment related to noncovered workers, and (3) the actual ratios between covered and non-covered unemployment in the area could vary substantially from the ratios incorporated in the methodology.

Department of Labor officials informed us that they had recognized that the methodology might not yield reasonably accurate results for rural areas because of the low percentage of covered employment generally found in such areas and that they believed that the results for metropolitan urban areas were considerably more accurate. The officials stated that the Department had expressed concern to officials of EDA and ARA with respect to using unemployment rate statistics as measurements of economic distress on which to base eligibility determinations.

In a letter dated March 13, 1969, the Assistant Secretary for Manpower, Department of Labor, commented to the Assistant Secretary for Economic Development, Department of Commerce, that for small, predominantly rural labor areas:

"*** the major problem has always been one of underemployment and under-utilization of available manpower resources, rather than unemployment. Intermittent employment at low level jobs and in subsistence farming may hold down the local unemployment rate and tend to conceal widespread poverty in many such areas."

The Assistant Secretary commented further:

"We believe therefore, that you may wish to give some further thought to the problem of the basis used for designating areas which are predominantly rural in character."

As noted on page 49, the legislative history of the Public Works and Economic Development Act indicates that the median family income criterion included in the act was intended primarily as a measurement of underemployment for those essentially rural areas where there are "really no measures of unemployment." Therefore a criterion for measuring underemployment exists. Because median family income data for local areas are developed only once every 10 years as part of the census of population, however, such income data are not measuring the current economic conditions of those rural areas in which underemployment is a crucial element. In the absence of current income data, EDA has continued to place reliance on the unemployment rates as measures of economic distress in such areas. The need for current income statistics is discussed in greater detail in chapter 3.

As of December 1970 the Department of Labor, in cooperation with the affiliated Nevada Employment Security Agency, was sponsoring a research study to attempt to develop new methods of measuring underemployment and underutilization of manpower that could be used, together with or in lieu of area unemployment data, as a basis for determining EDA eligibility. The study will reexamine relevant data on rural counties including those data available from the Departments of Commerce, Agriculture, and Labor and affiliated State agencies.

Resident labor force not adequately measured

If unemployment rates are to provide an accurate measurement of the economic conditions of a specific area, it seems necessary that the rates apply to all employed and unemployed residents of the area. The labor force concept used in measuring national unemployment rates does count both employed and unemployed on a residence basis. Unlike this concept, however, the work force concept used in the methodology for measuring unemployment in small areas counts the employed at their places of work. The work force figures, therefore, include workers commuting into the area from other areas and may include a person more than once to the extent that multiple job holdings exist during a payroll period. On the other hand residents commuting out of the area are excluded from the work force count but included in the labor force data.

In developing an estimate of the area's unemployment rate, the actual number of area residents employed may be distorted and, when matched to the area covered unemployment figures, may result in an erroneous covered unemployment rate. In using the building-block approach to estimating total unemployment, any error resulting from the computation of the covered unemployment rate is further compounded when the rate is applied to noncovered employment to derive noncovered unemployment and the total unemployment rate.

Household surveys conducted in 1969 by several State employment security agencies, in cooperation with the Department of Labor, showed that the number of workers commuting between counties was substantial. For example, in-commuters for one of the counties accounted for 1,129 of the total covered employment of 3,486 workers. In another county, in-commuters accounted for 431 of the 899 workers in covered employment. Out-commuters for these two counties were 434 and 545, respectively.

We noted that a report prepared by a university study team for the Mississippi Employment Commission showed that, for 10 Mississippi counties surveyed, net commuting in 1967 ranged from -17.7 percent to +57.5 percent.

Measuring unemployment in local areas
on basis of national samples of unemployment

As noted earlier, the building-block method for estimating the unemployment rate of small areas requires the development of estimates of unemployment for noncovered workers and for entrants and reentrants to the labor force using ratios and factors derived from national samples of unemployment. For noncovered workers the ratios are based on conditions found to exist in the late 1950's. For entrants and reentrants, the factors are based on national data on new-worker unemployment for the 1950-64 period.

The part of total area unemployment which these two groups represent is substantial in small areas. For example, one county having a civilian work force of 2,200 and an unemployment rate of 7.3 percent in calendar year 1969 had an estimated unemployment of 160 workers, of which 92, or 58 percent, were noncovered workers, entrants, and reentrants. In another county, estimated unemployment in calendar year 1969 for these categories represented 59 percent of the total unemployment estimate. The civilian work force and unemployment rate for this county were 2,800 and 5.7 percent, respectively.

The consistency of the ratios and factors used with current local conditions is questionable--from the standpoint of both variability between the national sample data and local conditions and the period of time which has elapsed since the development of the ratios and factors.

Early concern regarding the uses of national ratios for estimating area unemployment was expressed by the Gordon Committee. In its report to the President, issued in 1962, entitled "Measuring Employment and Unemployment," the Committee stated, in part:

"Such ratios are obviously suspect when applied to States or localities in which the composition of the labor force and local conditions vary markedly from the national pattern."

* * * * *

"Differences in regional characteristics also may be overlooked in the calculations used to estimate noncovered unemployment. These estimates are for the most part based on the assumption that there is a fixed relation between the rate of insured unemployment and other types of unemployment. It seems unlikely that this relation is the same for every State and local area, as implied in the method."

The Department of Labor's "Handbook on Estimating Unemployment" cautions users to review, on some regular basis, the factors used in the unemployment-estimating procedures to evaluate, among other things:

"*** the various relationships or factors used in the estimating procedure to assure consistency, to the extent possible, with local conditions and particularly, that significant change over time in the relationships are taken into account."

Some studies and surveys have been made in recent years, under the sponsorship of State employment agencies and/or the Department of Labor, to test the accuracy of the procedure for estimating unemployment in small areas. Although the results of these efforts are not conclusive and will require further examination, they do lend support to the contentions that the methodology might not adequately measure local conditions.

Reports prepared by a university study team for the Mississippi Employment Security Commission in July 1968 and July 1969 entitled "A Project to Verify the Accuracy of the Procedure for Estimating Unemployment in Rural Areas" and "Revising the Formula for Estimating Unemployment in Rural Areas: the Mississippi Case," respectively, noted that significant changes had taken place during the past several years in the relationships between covered and noncovered unemployment. The July 1968 report noted that:

"*** since the 1957-1959 formative years, insured [covered] unemployment in the U.S. has fallen from more than one-half of all unemployment to a level nearer one-third ***."

Our analysis of estimates of covered and total unemployment reported by the State employment security agencies showed that between 1960 and 1968 covered unemployment had dropped from 46.5 to 35.7 percent of total unemployment, as indicated in the following table.

Calendar year	Unemployment		Percent of covered to total unemployment
	Total	Covered	
(000 omitted)			
1960	4,097	1,906	46.5
1961	5,001	2,290	45.8
1962	4,204	1,783	42.4
1963	4,096	1,806	44.0
1964	3,802	1,605	42.2
1965	3,418	1,328	38.8
1966	2,995	1,061	35.4
1967	3,173	1,205	38.0
1968	3,108	1,111	35.7

With respect to decreases in specific categories of employment, the July 1969 report noted that from 1958 the insured (covered) unemployment, nationwide, had declined substantially faster than had unemployment among domestic workers. The report contained the following statistics comparing the annual rates of unemployment among covered and domestic workers for the calendar years 1958-68.

Calendar year	Rate of unemployment	
	Covered workers	Domestic workers
1958	6.4	5.6
1959	4.4	5.2
1960	4.8	5.3
1961	5.6	6.4
1962	4.4	5.5
1963	4.3	5.8
1964	3.7	5.4
1965	3.0	4.7
1966	2.3	4.1
1967	2.5	4.1
1968	2.3	4.0

Although the above statistics show unemployment in 1968 for domestic workers as being almost twice that of covered workers, the methodology considers unemployment among domestic workers as being equal to three fourths of the unemployment rate for covered industry employment.

Household surveys of labor force data, made during the period May to October 1969 by several State employment security agencies in 15 counties in cooperation with the Department of Labor, produced results which showed unemployment to be higher in 10 of the 15 counties surveyed than did the estimates developed using the building-block method. The information developed by the surveys is being analyzed to identify the kinds and extent of the differences between the survey results and the estimates based on the methodology. The analysis of the data is being made by a study team from the University of Houston under the sponsorship of the Virginia Employment Commission and the Department of Labor. The study team is to determine the revisions needed in the methodology to improve small area unemployment estimates and is to make a test of the revised method.

Department of Labor officials informed us that in many instances the differences between the household survey results and the estimates developed using the methodology fell within the predicted range of sampling variability of the household surveys and may not represent true differences. They said that this factor would be considered in the analysis of the survey results.

OBSERVATIONS ON
UNEMPLOYMENT-ESTIMATING PRACTICES
OF STATE AGENCIES

Our evaluation of the unemployment-estimating practices of employment security agencies in two States showed that the State agencies were severely handicapped in their efforts to develop current unemployment rates, because of the lack of reliable and current labor market data for local areas. In their efforts to derive unemployment estimates, State agency employees have found it necessary to use old and incomplete statistical data and to follow estimating practices which are far from adequate for the development of reasonably accurate and reliable unemployment estimates. The methodology for estimating unemployment prescribed by the Department of Labor is subjected to varied degrees of modification and is not uniformly applied.

In the following sections we discuss several major problem areas which we observed in reviewing the practices in the two States, hereinafter referred to as States A and B. The problem areas discussed are illustrative examples of conditions affecting the development of reliable and accurate unemployment estimates and not of all factors having a bearing on the development of reliable and reasonably accurate unemployment estimates for areas within States A and B.

Further study is required to ascertain the extent to which the practices and experiences of States A and B are indicative of those in other States. We believe, however, that, although they may vary in degree the problems experienced by States A and B are characteristic of those in many other States, because of the general lack of current labor market data for small and rural areas.

Current employment data not readily available

We found that much of the employment data necessary for accurately estimating area unemployment rates in States A and B were not available on a current basis. Also the covered employment data are not developed on the basis of workers' residences, and this fact had a tendency to distort the actual employment statistics for an area.

Covered employment

Generally data on covered employment first become available 6 months after the close of a quarter. For example, the data covering the period January through March are made available in September of the same year. By March of the following year, shortly before the State agencies submit the unemployment rate estimates to the Department of Labor, covered employment data are available for only the first three quarters of the previous year. As noted on page 34, the number of months of actual covered employment data incorporated in the annual averages varied from 1 month to 9 months of the year of estimate, depending on the estimating practices of the State agencies.

The covered employment county totals need adjustment to account for employment reported by employers having business activity in more than one county or State. Multicounty and multistate figures are presently compiled on a statewide basis and must be broken down according to counties before the necessary adjustments can be made. State A did attempt to adjust the covered employment data in this manner. Such determinations are far from precise, however, and are based on information known to the local office employees.

We did not find any evidence that State B had adjusted the county totals. The State B labor market analyst informed us that occasionally some adjustments were made but that they were few in number.

The covered employment data are updated on a monthly basis using estimating techniques which vary between States A and B. In State A monthly reports of employment were obtained by the local agencies from a sampling of employers within the local areas. State B did not have a similar sampling procedure. State B employees updated the covered employment data on the basis of the previous year's trends.

State A had established guidelines, for use by the local offices, as to what size sample of industries should be obtained to produce meaningful data. The State labor analyst informed us, however, that his experience had shown that the monthly samples not always were satisfactory.

He informed us also that the effectiveness of industry sampling was influenced to some extent by the attitude of area office managers toward the importance of developing monthly estimates of area employment and unemployment. Other office activities more directly related to State employment security functions generally receive first priority, and whether personnel can devote their time to labor market matters generally depends on the work load which such functions place on area office employees.

The changes in employment indicated by the monthly samples are considered as being the total changes for the industry. It appears unlikely, however, that such is the case. For example, if the manufacturing industries sampled reported a change in employment of 20 workers from one month to the next, the 20 workers would be considered as being the total changes affecting the manufacturing industries within the area. This assumption would be made regardless of the number of employers reporting or the number of workers included in a specific industry.

The State labor analyst informed us that the "linking method" suggested in the Department of Labor's handbook for estimating unemployment for the current month generally was not used by local office employees because of the risk of arriving at a percentage-change ratio influenced by atypical situations rather than at meaningful trends in labor turnover. The linking method involves computing the relationship which the sample for the current period bears to the sample for the prior period and applying the percentage obtained to the estimated employment for the prior period.

The example shown in the following table illustrates the differences in the monthly employment estimates resulting from the actual-change method and the preferred linking method. The results obtained could affect the covered unemployment rate, the unemployment estimates for noncovered industries, and the overall unemployment rate for the area.

Example of difference between
actual-change and linking methods
of estimating employment

Result of monthly industry samples		Change--previous to current		Monthly employment estimates		
				<u>Current</u>		
(1) Previous	(2) Current	(3) Actual (Col. 2-Col. 1)	(4) Linking (Col. 2:Col. 1)	(5) Previous	(6) Actual (Col. 5-Col. 3)	(7) Linking (Col. 5:Col. 4)
(workers)				(workers)		
700	725	25	1.035%	2,000	2,025	2,070

State agency employees informed us that generally local office employees did not have the experience and technical competence necessary to work with the preferred statistical-estimating techniques. One reason offered for this general lack of experience and competence was the high turnover in local office employees assigned the responsibility for developing labor market information. We were informed that, with few exceptions, such local office employees were in these positions a year or less and that during that short period they were not able to gain the experience or competence in statistical-measuring techniques and local labor market characteristics required to do an effective job.

The policy of the employment security agencies of both States A and B is to adjust the monthly estimates, if necessary, when actual quarterly covered employment information becomes available. State A agency officials informed us, however, that their experience had shown that such adjustments generally were made by local office employees only at yearly intervals.

Noncovered employment

We found that the noncovered employment information was generally old and unreliable and had been based, to a large extent, on 1960 census of population data. State A did make some attempt to adjust the estimates based on the census of population for the employment categories. State A employees acknowledged, however, that the results were far from satisfactory and represented only a best guess of actual conditions. The following schedule shows the sources of information used by States A and B for estimating current employment for noncovered establishments.

Employment category	State	
	A	B
	<u>Data sources</u>	
Small firms	"County Business Patterns," ^a 1962	"County Business Patterns," ^a 1962
Domestics	Prior year's estimates ad- justed on basis or need in- dicated by (1) changes in population, (2) employment level for current year, and (3) labor force particip- ation rate	1960 census of population
Government:		
Local	Survey made every 2 years	1962 census of government
State	Survey made every 2 years	Survey made in 1960
Nonagriculture, self-employed, and unpaid family	Estimated on basis of local wage and salary data for January of current year	1960 census of population
Nonprofit	Survey made every 2 years	1960 census of population
Railroad	Survey made every 2 years	1960 census of population
Agricultural:		
Wage and salary	Generally 5-percent decrease from prior year's estimate	Changes indicated by monthly estimates of employment de- veloped by Department of Agriculture
Self-employed and unpaid family	Generally 5-percent decrease from prior year's estimate	Changes indicated by monthly estimates of employment de- veloped by Department of Agriculture

^a"County Business Patterns" is a series of annual reports published by the Bureau of the Census presenting first quarter employment and payroll data for each county, standard metro-
politan statistical area, and State. The data are based principally on records of the Social
Security Administration.

Application of prescribed methodology

The methodology for estimating unemployment used by State A at the time of our review deviated substantially from that prescribed by the Department of Labor. State officials informed us that the methodology was based on Department of Labor guidelines issued prior to 1960 and was used because it provided a short-cut method which could be more readily understood and used by the local office employees in developing the unemployment rates than could the prescribed, more technical methodology.

Department of Labor officials informed us that they were not aware that State A's employment security agency was using a methodology other than that currently prescribed by the Department and that State A had not received authorization to deviate from the prescribed methodology.

In this regard, Department procedures provide:

"In developing the estimates for the most recent calendar year, the procedures outlined in the Handbook on Development of Basic Labor Market Information for Small Areas should be followed. *** Significant deviations from these instructions will not be accepted without prior approval from the Bureau's national office."

After we brought this matter to their attention, Department of Labor employees made an analysis of the State A's methodology and concluded that it had resulted in substantially lower unemployment rates than those developed using the prescribed methodology. The possibility exists, therefore, that use of the prescribed methodology could result in more areas of the State qualifying for EDA assistance on the basis of unemployment than are presently eligible on this basis and might also result in higher grant rates for the areas currently designated.

In a letter dated October 9, 1970, commenting on a draft of this report, State A's employment commission informed the Manpower Administration, Department of Labor, that the prescribed methodology would be used in the future.

State B used a modified version of the prescribed methodology that could yield substantially different results for certain areas than would the prescribed methodology. For example, in developing unemployment estimates it is necessary to determine the number of unemployed workers from covered industries who, even though having earnings qualifying them for benefits, delay filing or never do file claims for benefits.

The "Handbook on Estimating Unemployment" contains a formula for use by the States in computing the estimate of such workers. We noted that State B's estimates were based on twice the number of weekly unemployment compensation claims filed with the employment security offices rather than on the prescribed formula. For example, on the basis of 34 initial claims, the estimate yielded by State B's method would be 68 workers, whereas the handbook method's estimate was 10. Essentially, the effect of State B's procedure was to increase the estimate of covered industry unemployment by 58 workers, which, in turn, could result in a higher unemployment rate for the area.

State B agency employees did not make any effort to develop an estimate for unemployed covered industry workers who were disqualified from receiving unemployment benefits for nonmonetary reasons, such as refusal of suitable work. This estimate, which is required by the prescribed methodology, could have a significant effect on the covered industry rate which, in turn, is used to develop estimates of noncovered unemployment. State A agency employees developed an estimate of workers who are disqualified and who delay filing or never file claims for benefits, on the basis of 5 percent of the number of continued claimants.

Department of Labor employees also made an analysis of the methodology used by State B and concluded that the methodology did not result in unemployment rates significantly different from those which resulted from using the prescribed methodology. It should be noted, however, that the analyses of both methodologies were made on the basis of data which were available at the Department's national office and which were for State and major labor areas. We believe that the effects of deviations from standard

procedures for estimating unemployment may be more significant for small areas than for major metropolitan areas.

We are not suggesting that the results obtained by the prescribed methodology are any more representative of actual conditions than are those obtained by States using their own estimating techniques. Our concern is with the lack of comparability between State estimates and with the inequity in measurement which prevails if national standards are to be subjected to modification or varied interpretation by the States.

Development of annual average
unemployment rates

Annual average unemployment rates, including those for counties already designated by EDA, are based on data for covered employment which represent varying periods of time for different counties. Annual averages for counties within the States are based on actual covered employment data covering from 1 month to 9 months of the year of estimate. Estimates of covered employment for the other months within the year of estimate are based, in some instances, on labor trends of the previous year or on samples of employment. In other instances, no attempts are made to develop estimates of covered employment for the other months or to recognize seasonal or cyclical patterns of employment.

The current practices adversely affect the measurement of unemployment, and consequently EDA eligibility determinations, by

- failing to give each county within the States an equal opportunity to qualify for designation by measuring unemployment conditions over a standard period of time and
- causing unwarranted designations, terminations, or revisions in maximum grant rates as a result of basing annual unemployment rate averages on incomplete and preliminary data.

The practices of States A and B regarding the development of average annual unemployment rates are discussed below.

State A

The average annual unemployment rate estimates for EDA areas are developed by local office employees if the EDA area is one of the 25 home counties (principal points of employment security activity) within the State. Of the 11 counties designated on the basis of unemployment at the time of our review, four were also home counties.

The annual averages for these four EDA areas is a 12-month average of unemployment rate estimates which are developed by employees in the local employment security centers during the year of estimate. The covered employment data used in developing the unemployment rate estimates are actual figures for the month of January of the year of estimate and are estimated figures for the 11 other months. The monthly estimates are based on employment data reported by a sample of employers within the area.

The average annual unemployment rates for seven of the 11 EDA areas within the State designated on the basis of high unemployment are one-time estimates computed by the State agency employees in March following the year of estimate and just prior to their submitting the annual unemployment rate reports to the Department of Labor.

The unemployment rate estimates developed by the State agency employees incorporate actual covered employment data for 9 months of the year of estimate and the last 3 months of the prior year.

For areas which are not already designated as EDA areas and which are not home counties (50 such counties within the State), determinations of unemployment rates are made by the local offices once each year. These rates incorporate covered employment data for only January of the year of estimate. Labor changes which take place in these counties during the course of the year are not recognized, although monthly samples of employers and covered employment data made available during the year might indicate such changes.

State B

Unemployment rate estimates for all EDA areas designated on the basis of high unemployment were developed monthly by State agency employees. In addition, monthly estimates were developed for all counties where the unemployment rate for the previous year was 5 percent or higher. At best the annual averages for EDA-designated counties and for those having unemployment rates of 5 percent or higher included actual covered employment data for 6 of the 12 months. Estimates for the other 6 months were developed from the prior year's trends. A State labor analyst informed us that, for the 1969 annual averages, actual data for only 3 months were available and were used.

For counties within the State other than those noted above, the annual average unemployment rates generally are computed once each year and are based on actual covered employment data for only the first 3 months. No figures are included in the estimates for the 9 other months. The annual average therefore is essentially a 3-month average insofar as covered employment is concerned.

Effects on area designations

Department of Labor procedures require the State employment security agencies to submit to the Department's national office by April 1 of each year annual averages for the previous 4 calendar years for each labor area of substantial or persistent unemployment and for areas eligible for public works grants under title I and title IV of the Public Works and Economic Development Act. The annual average unemployment rates reported by the State agencies to the Department are those furnished to EDA.

EDA uses the unemployment rate estimates as a basis for making determinations as to designations and terminations and for making revisions to the public works maximum grant rates during the following year.

Our analysis of the "Qualified Areas--Criteria and Data" reports published by EDA showed that, in many instances, the area unemployment rates first reported by the State agencies and used by EDA are revised in subsequent reporting periods. Employees in State B informed us that, in some instances, revisions in the unemployment rates result from recomputations of the rates using a full 12 months of actual covered employment data. As noted earlier, actual covered employment data for the full calendar year are not available at the time the unemployment rate estimates are first developed.

Although in many instances the revised rates do not differ significantly from those first reported, the effects on area eligibility determinations could be substantial because of the firm-percentage standards set by statute. As noted earlier, the act requires that an area experience at least a 6-percent rate of unemployment to qualify for designation under the unemployment criteria. A difference of only one tenth of 1 percent in the unemployment rate could influence designations. A county having an unemployment rate of 6 percent would be eligible, whereas a county having an unemployment rate of 5.9 percent would be ineligible. An EDA official informed us that a determination as to dedesignation of an area which experiences a drop in the unemployment rate for 1 year of only one tenth of 1 percent is deferred until unemployment rate estimates for the following year are received.

The revised rates do not retroactively alter past determinations but could have an effect on future findings of substantial and persistent unemployment. As noted on page 7, determinations of substantial and persistent unemployment take into consideration the percentage by which the annual average unemployment rate exceeds the national average for certain periods of time. Revisions in unemployment rates could affect the percentage to the extent that the area would no longer be considered as having substantial and persistent unemployment.

Our review of revisions in the unemployment rates for calendar years 1965-67, for State B showed, on the basis of the revised rates, that:

- one county would not have qualified for designation,
- four counties would not have been dedesignated,
- 10 counties would have been eligible for higher maximum grant rates, and
- five counties would have been eligible for lower maximum grant rates.

The following examples illustrate how EDA grant approvals and percentages could have been influenced if the revised unemployment rates had been available.

Example 1

In April 1966 a city applied for grant and loan funds to construct a water supply line and to improve water treatment and storage facilities. The city was located in a county which had been designated a redevelopment area in January 1966 and which qualified for a 70-percent maximum grant rate on the basis of an annual average unemployment rate for 1965 of 10 percent. EDA approved the project in May 1967 and agreed to finance the total project cost of \$608,000 by a 50-percent direct grant of \$304,000, a 20-percent supplemental grant of \$121,000, and a 30-percent loan of \$183,000.

The qualified areas and maximum grant rate listings dated July 30, 1967, show a revised 1965 rate for the area of 5.3 percent rather than the 1965 rate of 10 percent as shown in the qualified areas listing dated July 1, 1966. On the basis of the revised 1965 rate, the area would not have qualified for designation as a redevelopment area and would not have been eligible for participation in the program.

Example 2

In May 1967 EDA approved a project for the construction of a sewage collection system, a sewage lift station, force mains, and a primary treatment pond. The total estimated cost of the project was \$275,200. On the basis of a 1965 annual average unemployment rate of 17.4 percent, the area in which the project was to be located qualified for a maximum grant rate of 80 percent. EDA agreed to finance the sewage collection system with a 50-percent direct grant of \$74,000, a 30-percent supplemental grant of \$44,440, and a 20-percent loan of \$29,560; a total of \$148,000. EDA's participation in the sewage lift station, force mains, and primary treatment pond included a 50-percent supplemental grant of \$63,600 and a 20-percent loan of \$25,440; a total of \$89,040. The Federal Water Pollution Control Administration agreed to finance the remaining costs with a 30-percent grant of \$38,160.

The qualified areas and maximum grant rate listings dated July 30, 1967, show a revised 1965 annual average unemployment rate for the area of 7.4 percent rather than the 1965 rate of 17.4 percent as shown in the qualified areas listing dated July 1, 1966.

If the revised rate had been known in May 1967 and had been used by EDA in determining the percentage of grant participation, the area would have qualified for a 50-percent, rather than an 80-percent, grant rate. On the basis of the revised rate, EDA grant participation in the sewage collection system would have been limited to a direct grant of 50 percent and in the sewage lift station, force mains, and primary treatment pond would have been limited to a supplemental grant of 20 percent rather than

50 percent. In total, EDA's grant participation in the project would have been \$82,600 less than that actually agreed to.

In December 1968 the same applicant applied to EDA for additional funds to cover project cost overruns. EDA agreed to make available additional loan and grant funds totaling \$126,000, made up of a 50-percent direct grant of \$63,000, a 20-percent supplemental grant of \$25,200, and a 30-percent loan of \$37,800. The 70-percent maximum grant rate was based on the annual average unemployment rate for 1967 of 10 percent shown in the qualified areas and maximum grant rate listings dated September 1, 1968. The qualified areas listing dated October 1, 1969, shows a revised annual average unemployment rate for 1967 of 8.3 percent rather than 10 percent. If the revised rate had been known and had been used by EDA, the area would have qualified for a 60-percent, rather than a 70-percent, maximum grant rate. On the basis of the revised rate, EDA grant participation would have been about \$24,500 less than that actually agreed to.

CONCLUSIONS

Substantial improvements are needed in the estimates of unemployment for local areas. Our evaluation suggests that opportunities for strengthening the estimates exist in improving

- the methodology for developing estimates,
- the labor market data collection and reporting systems of the State agencies,
- the estimating practices of the State agencies, and
- the review and monitoring procedures of the Department of Labor.

A study to improve the methodology for estimating unemployment that is being conducted under the sponsorship of the Department of Labor hopefully will aid in correcting the conceptual weaknesses in the methodology and will result in new and improved techniques for estimating current unemployment. The efforts being made by the Department to improve the unemployment estimates for small areas are long overdue. Where warranted, research findings should be converted into timely and meaningful action, to preclude further delays in improvements and to strengthen the data base used for EDA designations.

As indicated by our review of the agencies of two States, substantial differences existed between the prescribed estimating techniques of the Department and those used by both States. Differences in practices between the States were also evident. State officials view their practices as being necessary for administrative expediency or, in some instances, because of the lack of experienced employees. A greater awareness by the Department of Labor of the problems experienced by State agencies in applying the prescribed estimating techniques should contribute greatly toward improving the situation.

The Department of Labor also needs to improve its review and monitoring procedures of the estimating practices of the various States to ensure uniformity and consistency

in the application of the prescribed estimating techniques and to provide technical assistance when needed.

A program of household surveys in selected areas on a cyclical basis may be one method by which the Department could evaluate the employment and unemployment levels yielded by the prescribed methodology, to ascertain whether the levels are consistent with local conditions. We believe that such a program would be economically feasible. Implementation of such a program should be made, however, only after the survey procedures have been tested and found to be satisfactory and after the comparability of the data has been established.

The States should be able to do much to improve the quality of the estimates by exercising greater care in gathering and interpreting the labor market data and by increasing their efforts to improve their labor market data collection and reporting systems. We recognize, however, that additional funding of the local area unemployment estimating program by the Department of Labor might be necessary to enable the State agencies to significantly improve their data collection and reporting systems. As pointed out to us by Department officials, a factor limiting the amount and quality of work which can be done under the program is the available staff and budgetary resources of the States. Department officials noted that, historically, State staff resources have averaged less than one person for each State.

AGENCY COMMENTS AND OUR EVALUATION

The Department of Labor's comments on a draft of this report were included in a letter dated December 2, 1970, with enclosure, from the Assistant Secretary for Administration. (See app. II.)

The Department indicated that the local area unemployment rate was the most widely understood and accepted basis for measuring economic distress and that the present system of preparing data, in spite of some deficiencies, minimized the cost and permitted interarea comparability of data and the utilization of local knowledge of area conditions. The Department acknowledged, however, that the results achieved through this methodology tended to decrease in reliability as the size of the area decreased and suggested that, for very small areas--those with a population of less than 5,000--it might be desirable to use other approaches to achieve the degree of precision needed.

The Department suggested that these alternative approaches could relate to those currently being explored in the Stanford Research Institute project to develop new measures of underemployment and underutilization of manpower or to involve utilization of the limited household survey method.

We have indicated that the methodology does not adequately measure the economic distress of the small areas. We agree with the Department that alternative approaches may be needed to properly measure economic distress in such areas. We question, however, whether the unreliability of the results obtained using the methodology should be identified only with areas having populations of 5,000 or less or also with areas having larger populations.

With regard to questions raised in this report concerning the timeliness of some of the data used to develop area unemployment estimates, the Department stated that:

"Some of these problems--particularly those related to the figures on base covered employment data--have long been recognized, but are not subject to easy correction."

Concerning covered employment data, the Department replied that:

"These employment data are derived from UI [Unemployment Insurance] tax reports submitted by employers; it would not be reasonable to cut back on the time now allowed employers to complete and submit these reports, in order to effectuate a minor improvement in the currency of the data. In most cases, such changes would have little effect on the local area unemployment rate. In any event, the unemployment data used for the purpose of EDA eligibility determinations, are, of course, far more current than those related to determinations based on income statistics."

Our references in this report to time lags in the covered employment data were not intended to imply that these time lags had been caused by delays in employer submissions--although we recognize that in some instances this might occur--or that employers should be required to complete and submit their reports sooner than now required. It is the time period required to process the reports and to extract the required employment information after the employer submissions that we believe might be susceptible to improvement.

Also we believe that the importance of improvements in the timeliness of covered employment data is more significant than indicated in the Department's response. In terms of area designation, a difference of only one tenth of 1 percent in the unemployment rate could influence designations. The employment totals which might be indicated by more current data would not necessarily have to differ greatly from estimates or prior months' trends to result in such a difference. An area's maximum grant rate eligibility could be similarly affected.

The Department's response pointed out that one of the major problems with respect to timeliness of the area unemployment data related to making eligibility and termination determinations on the basis of calendar year data from the preceding year although more recent data were available and could have been supplied by the Department and by the affiliated State employment security agencies. The Department

suggested that provisions should be made by EDA to take official cognizance of such data. Another improvement which the Department suggested is to establish an unemployment cutoff point for termination, once an area has been designated, different from that used for initial qualification.

The Assistant Secretary for Economic Development, Department of Commerce, in commenting on a draft of this report, advised us by letter dated November 16, 1970, that EDA was studying its legislative authority with a view to changing the criteria for the designation of redevelopment areas. We believe that the suggestions by the Department of Labor, outlined in the above paragraph, should be considered in developing new criteria for area designations.

The Department of Labor also called attention to the fact that the Employment Security Amendments of 1970 would extend unemployment insurance coverage beginning January 1, 1972, to additional job groups, which should significantly improve the reliability of area unemployment data for small areas.

We have indicated in this report that major problems with using covered employment as a data base on which to build estimates of unemployment in small and rural areas involve not only the numbers of area residents working in covered job groups but also the compiling of employment data for such workers on a resident labor force basis. We agree that, from an overall standpoint, the new legislation should improve the covered employment data base. The significance of these improved data on the accuracy and reliability of specific county estimates, however, is questionable, because the data will still be based on the places of work rather than on the workers' residences.

RECOMMENDATIONS TO THE SECRETARY OF LABOR

We recommend that the Secretary of Labor provide for:

- A review of the procedures and practices of the State employment security agencies relating to the development of unemployment estimates, to ascertain to what extent changes to improve the accuracy and comparability of the results obtained are required and feasible.
- Improvements in the Department's review and monitoring procedures of the unemployment-estimating practices of the various States, to ensure uniformity and consistency in the application of the prescribed techniques and to provide technical assistance when needed.
- Consideration of a program of household surveys in selected areas on a cyclical basis as one method by which the Department could evaluate the employment and unemployment levels yielded by the prescribed methodology to ascertain whether they are consistent with local conditions. Implementation of such a program should be made, however, only after the survey procedures have been tested and found to be satisfactory and after the comparability of the data has been established.
- High priority to be given to the efforts being made to improve unemployment estimates for local areas, so that research findings will be converted into timely and meaningful action where warranted.
- Consideration of the findings of this report in the Department's evaluation of the unemployment-estimating procedures.

- - - -

The Assistant Secretary for Administration, Department of Labor, advised us that--in line with our recommendation for a review of the procedures and practices of the State employment security agencies and within the constraints of budget resources and staffing ceilings--the Department would

take appropriate steps to ensure uniformity in the application of prescribed unemployment-estimating techniques and to improve the accuracy and comparability of the results obtained.

The Assistant Secretary indicated that a program of household surveys would require some additional funding and that the Department would explore the possibility of obtaining additional resources for this purpose at the next available opportunity.

With regard to our recommendation that high priority be given to the efforts being made to improve unemployment estimates for local areas, the Assistant Secretary stated that:

"The Department's present schedule calls for this type of conversion of research findings into the development of improved area unemployment estimating procedures by the end of this fiscal year [1971]. These improvements will take account of the findings of the GAO report, as well as other research studies sponsored by the Department and the affiliated State employment security agencies to improve the soundness of estimates for local areas."

The Department's response also indicated that a comprehensive report by consultants at the University of Houston, in cooperation with the Department's staff, was scheduled for completion by January 1971. The report is expected to include recommendations for improvement in the methodology for estimating unemployment in small areas. The Department's response indicated also that an additional report relating to the overall system for States and large areas scheduled for completion by July 1971 should include additional improvements in small area procedures.

The Assistant Secretary advised us that the Department would consider our findings in its evaluation of the unemployment estimating procedures which currently was being conducted.

The actions taken and proposed by the Department are consistent with our recommendations.

CHAPTER 3

NEED TO IMPROVE INCOME DATA

Section 401(a)(2) of the Public Works and Economic Development Act provides for the designation of areas which have median family incomes not in excess of 40 percent of the national median as determined by the most recent available statistics for such areas. Also EDA uses median family income data as criteria for determining maximum grant rates for public works grants and loans to such areas. Since median family income statistics for local areas of the country are available only from data gathered in the census of population made once every 10 years, EDA uses these data for designation and grant rate determination purposes. Also the income levels established by EDA as criteria for determining which maximum grant rates will apply to each area have remained unchanged since 1965.

For calendar year 1959, the national median family income was \$5,660. As provided by the act, an area which had a median family income of \$2,264 (40 percent of the national median) or less was eligible for EDA designation.

LIMITATIONS OF DATA

There are two principal drawbacks to using census data for area designations and grant rate determinations, which leads us to conclude that the data do not satisfactorily meet the needs of the program.

- They do not provide a reasonably current measure of income.
- The preciseness and reliability of the data developed for small areas is questionable.

The legislative history of the EDA program underscores the importance of the income criteria as a measure of economic distress.

The Subcommittee on Production and Stabilization, Senate Committee on Banking and Currency, held hearings in

May 1965, on Senate bill 1648, a bill to provide grants for public works and development facilities and for other purposes. The provisions of this legislation represented a substantial part of the bill enacted as the Public Works and Economic Development Act of 1965. During the hearings the Deputy Administrator, ARA, said that the 40-percent-income provision included in the legislation:

"*** is primarily a measurement of underemployment for those essentially rural areas where there are really no measures of unemployment, because people are employed on the farms and they are not counted as partially unemployed despite the fact that they may be only working a fraction of their time and have very low income."

As noted earlier in this report, most of the areas which currently constitute EDA redevelopment areas are rural in character.

Under the current practices, determinations of eligibility based on low income are restricted to those areas of the country which qualify at the time of the census of population. These determinations are frozen until the next census income results are made available--a period of 10 years. Therefore, regardless of improvements in income levels or the general economic conditions of the designated areas, the areas continue to retain their eligibility status and possibly share in the limited program funds intended expressly for economically distressed areas. Areas guaranteed long-term eligibility are in sharp contrast to those areas designated on the basis of high unemployment that are subjected to annual rate determinations and reviews to ascertain whether continued eligibility is warranted.

Although the system serves to benefit those areas which qualify at the time the census is taken, it creates an inequity for those areas which, although not qualifying at the time of the census, later experience economic downturns with resultant effects on the areas' income levels. Eligibility determinations do not rest solely on measures of income. If an area's economic distress is in the form of underemployment, however, it is doubtful that the other criteria--such as unemployment--will prove to be suitable

substitutes for measuring the distressed condition of the area. As noted on page 20, widespread poverty may exist in some areas even though the local unemployment rates may be relatively low.

Concern with using census data for EDA purposes also arises when one considers the degree of preciseness and reliability of the income data developed. The decennial censuses are designed primarily to obtain information on the demographic and social characteristics of the population and not to provide median family income statistics. The income data therefore are by-product data that are gathered from only a sampling of the population.

The income data in the 1960 census were based on a 25-percent sample of the population, and the income data in the 1970 census were based on a 20-percent sample. Since the estimates are based on a sample, they may differ from the figure that would have been obtained if a complete census had been taken. For medians, the sampling variability depends on the size of the base and on the distribution on which the median is based. Therefore, for small areas, the variability can be expected to be greater than that for large areas. The following table, which is based on 1960 census information furnished to us by the Bureau of the Census for two counties, illustrates sampling variability.

County	Number of families	Estimate 1960 median family income	Interval within which true median family income could fall (note a)	Amount by which true median family income could be lower or higher than estimated median family income	
				Lower	Higher
A	1,833	\$2,254	\$2,099 to \$2,409 ^b	\$155	\$155
B	27,092	4,272	1,961 to 2,567 ^c	293	313
			4,227 to 4,318 ^b	45	46
			4,181 to 4,363 ^c	91	91

^a True median family income is the median family income that would be obtained in a census of all families.

^b Chances are about 68 out of 100 that median family incomes obtained from a complete census would fall within this range.

^c Chances are about 95 out of 100 that median family incomes obtained from a complete census would fall within this range.

The results obtained in the census are subject to errors of response and to processing and reporting variances. Entries for census data are obtained through self-enumerations or through household interviews, and frequently these entries are based on memory. A Bureau of the Census official informed us that this can produce underestimates of income, because a person tends to forget minor or irregular sources of income. The Bureau of the Census notes in its publications of income statistics that other errors of reporting are due to misrepresentation or to misunderstanding as to the scope of the income concept.

The need to develop current estimates of income has been recognized for some time by both ARA and EDA. The Public Works and Economic Development Act specifically requires that an annual review be made of designations--including those designations based on income.

The Bureau of the Census collects annual data on median family income in the interim between decennial censuses through sample surveys of about 50,000 households in the United States. The survey is known as the current population survey. Since these data are collected for only a small sample of the Nation, however, the statistics are meaningful only as they relate to the Nation as a whole or to regional segments of the Nation. The sample is not large enough to develop statistics on a State or local basis.

In the May 1965 hearings referred to earlier, the Deputy Administrator, ARA, with regard to adjusting census income data, stated:

"We hope within a few years to have a system by which we can determine the changes in annual income, county by county, through the use of Internal Revenue figures. We do not now have it, but we are experimenting with it."

An EDA official informed us that as of May 1970 EDA did not have a system such as that described by the Deputy Administrator. EDA officials later informed us that it would be very costly to build an income data system on the basis of Internal Revenue Service data and that the results would be of questionable reliability because not all income

is reported to the Service. Because of these facts, efforts to develop a technique for determining changes in income on the basis of Service data have been abandoned.

Beginning in fiscal year 1967, EDA, in cooperation with the Office of Business Economics (OBE), Department of Commerce, initiated a program for the development of total and per capita personal income and earnings data for local areas. Since that time, EDA has given substantial financial support to OBE for this program. Demand for the data developed under this program is, at the present time, mostly from various groups and organizations interested in regional economic activity.

EDA officials stress the fact that, although the per capita personal income and earnings data developed by OBE are the most promising alternatives to using decennial census income data, they are not yet developed to the point where it could satisfactorily serve the needs of EDA. These officials point out that the data, as presently constructed, are unstable for small areas. They point out also that there still will be a lag in the data even with improvements. The data are developed on a calendar-year basis and at the time of our review were available through 1967.

OBE officials acknowledge the existence of weaknesses in the data but point out that the data could be improved to make them more compatible with EDA's needs. For example, these officials believe that improvements could be made in the intercensal estimates of the population that are divided into the estimates of personal income to arrive at the per capita income. An official of the Bureau of the Census informed us that he believed that OBE income data were reasonably accurate and that per capita income would be a good income base for purposes of EDA area designations after adjustment to eliminate the income for nonprofit organizations.

There are several differences between the definitions of income used by OBE and those used by the Bureau of the Census, which should be recognized. These are in addition to the more commonly known conceptual differences between median family income and per capita income.

In its income figures, OBE includes all the money items covered by the Bureau of the Census estimates, except such items as interpersonal transfers (such as alimony and gifts of money between parents and children) and employee contributions to social insurance. OBE includes also income received by nonprofit organizations that is not included in Bureau of the Census figures. The OBE estimates include, in addition to monetary items, such non monetary items as wages received in kind, the net rental value of owner-occupied homes, and the value of services rendered by banks and other financial intermediaries without the assessment of specific charges.

As noted earlier, entries for census data frequently are based on a person's memory. OBE data, however, are based mainly on records of business and government which show disbursements made to individuals rather than on data furnished by individuals.

A Bureau of the Census official informed us that available estimates indicated that 1960 census income data amounted to 94 percent of the income data which would have been obtained if OBE had applied the same definition of income, the difference being attributable to the methods of data collection.

In considering the effect on the geographical dispersion of EDA areas of using per capita income, we noted that most of the areas which would qualify under the low-income criteria would fall within the 10 States which the census identified as having the lowest median family income.

The 10 States included: Mississippi, Arkansas, South Carolina, Alabama, Tennessee, North Carolina, Kentucky, Georgia, South Dakota, and Louisiana. The comparison between the two income bases is shown below.

<u>Income base</u>	<u>Percent of areas located in 10 lowest median family income States</u>
1959 census median family income	85
1959 OBE per capita income	82
1967 OBE per capita income	75

As indicated above, use of median family income or per capita income would yield substantially the same results for the same period of time. Assuming that this relationship remains constant from year to year, it can be concluded that changes in levels of per capita income will approximate changes in median family income.

Using OBE income data for the years 1959 and 1967, we determined what changes in income had taken place between the two years and what effects such changes would have had on area designations based on income had the changes been recognized. The results showed that 71 of the 160 counties, nationwide, which would have qualified on the basis of 1959 per capita income criteria would have lost their income designation eligibility and 37 additional counties would have qualified for eligibility. On a basis other than income, 27 of the 71 counties and 25 of the 37 counties would have qualified for eligibility. The table below summarizes the results.

	<u>Number of counties</u>	
Qualified on 1959 per capita income		160
Terminated (1959-67)	71	
Designated (1959-67)	<u>37</u>	<u>34</u>
Qualified on 1967 per capita income		<u>126</u>

NEED FOR PERIODIC REEXAMINATION OF MAXIMUM GRANT RATE INCOME CRITERIA

EDA procedures do not require revisions in the maximum grant rate income criteria to recognize changes in income levels. The income levels currently used as a basis for giving up to 30 percent additional grant funds are the same as those used when the program was first established. During periods of inflation and rapid economic growth, such as were experienced during 1965-70, it is doubtful that income levels can remain unchanged and still stand as valid criteria for disbursing program funds. For example, data resulting from the current population survey conducted by the Bureau of the Census showed that the median income of households in the United States was \$8,389 in 1969 compared with \$5,660 shown by the 1960 census. The ratio of poor persons to the total population was 12 percent in 1969 compared with 22 percent in 1959.

We noted during our review that the Office of Economic Opportunity issued uniform income guidelines for application in all of its programs where family income is used to determine program eligibility. These guidelines are based on poverty thresholds derived from a definition of poverty developed for statistical purposes by the Social Security Administration in 1964. The Office of Economic Opportunity adjusts the income guidelines periodically for changes in consumer prices.

CONCLUSIONS

The decennial income data used by EDA as a basis for eligibility and grant rate determinations do not provide a current measure of economic distress. It is also questionable whether the census income data accurately represent the actual levels of income for some small and rural areas. Efforts should be made, therefore, to develop a means for improving income data.

If the practicalities of the situation warrant a conclusion that income data cannot be developed with greater precision in measurement or currentness, we believe that the Secretary of Commerce should so advise the Congress and

recommend legislative changes to the present criteria that will provide equitable consideration of all areas.

We suggest that EDA consider the feasibility of using per capita income as one means of determining more current and more complete income data. We recognize that such data have some limitations, and we are not necessarily advocating the use of those data in their present form. On the basis of our discussions with knowledgeable officials of the Department of Commerce, however, we believe that per capita income is a promising substitute for, or supplement to, the income data developed by the decennial census and that serious efforts should be made to further explore the potential of per capita income for area designations and grant rate determinations.

Furthermore we believe that EDA should institute techniques for periodically adjusting the maximum grant rate income criteria to bring them more in line with current conditions.

AGENCY COMMENTS AND OUR EVALUATION

The Department of Commerce's comments on a draft of this report were included in a letter from the Assistant Secretary for Economic Development transmitted to us by the Assistant Secretary for Administration in a letter dated November 30, 1970. (See app. I.) The comments related to only that part of the draft report that concerned income statistics and were primarily a reemphasis of points discussed in the report.

The Assistant Secretary stated that the matter of unemployment data was necessarily deferred to the Department of Labor, because the EDA legislation placed the responsibility of finding the facts and providing the unemployment data to be used in making area designations with the Secretary of Labor. The Assistant Secretary pointed out that, in support of the services rendered by the Department of Labor, EDA had provided to that Department between \$800,000 and \$900,000 annually from fiscal year 1967.

The Assistant Secretary agreed, in principle, that it would be desirable to have more recent income information on a regular basis, as suggested in our report. He indicated

that the costs of securing such information by duplicating Bureau of the Census procedures and techniques appeared to be prohibitive. He said, however, that, by utilizing other data sources, such as OBE--as we suggest in the report--EDA hoped to develop reasonably accurate income estimates to serve as measures of area economic distress.

He stated further that recent investigations by EDA suggested that the relative income rankings of counties remained fairly stable and that changes in income were not as dynamic as were changes in rates of unemployment.

We recognize that income rankings for some counties may remain stable between periods and that changes in income levels may not be as dynamic as are rates of unemployment. These considerations, however, do not mitigate the importance of having the means to recognize changes within a reasonable period of time of their occurrence so that appropriate attention may be given to those areas in need of economic assistance, regardless of the number of counties which could be expected to experience changes in their levels of income.

The Assistant Secretary directed our attention to the fact that the Public Works and Economic Development Act required EDA to use only median family income data. We believe that cognizance should be given to the fact that the per capita income series developed by OBE did not become available until 1968 and was not an alternative source of income data at the time that the ARA and EDA legislation was drafted and considered by the Congress.

RECOMMENDATIONS TO THE SECRETARY OF COMMERCE

We recommend that the Secretary of Commerce provide for:

- A review and study, in cooperation with the Department of Labor, of the problems associated with developing current unemployment and income data.
- Consideration of the feasibility of using, as a basis for area designation, the more current per capita income data developed by OBE instead of, or as a supplement to, the median family income developed as part of decennial censuses.

--The recommendation of changes in legislation as warranted by the results of the study we recommend.

--The institution of techniques for periodically adjusting the maximum grant rate income criteria.

The Assistant Secretary for Economic Development stated that a joint EDA/OBE group was working on the development of per capita income data. He said, however, that much work remained to be done before per capita income could be considered an acceptable substitute for the family income statistics currently used by EDA as required by legislation. He said also that this work would involve evaluating the quality of the estimates and their comparability with those developed from Bureau of the Census procedures.

We believe that it is of utmost importance that the task referred to by the Assistant Secretary of evaluating the quality of the estimates and their comparability with those developed from Bureau of the Census procedures be given the highest priority so that the Congress will have the opportunity to consider this alternative source of income data when it considers future economic assistance legislation. EDA's current authorization expires in fiscal year 1971.

The Assistant Secretary stated that EDA was currently studying its legislative authority with a view to changing the criteria for the designation of redevelopment areas.

The Assistant Secretary did not comment specifically on the need to institute techniques for periodically adjusting the maximum grant rate income criteria. Since these criteria are used by EDA for giving up to 30 percent in additional grant funds, we continue to believe that there is a need to periodically adjust the criteria to recognize changes in income levels.

APPENDICES



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

NOV 30 1970

Mr. Henry Eschwege
Associate Director
Civil Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of September 22, 1970, requesting comments on a draft report entitled "Need to Improve Data Used as a Basis for Providing Federal Assistance to Economically Depressed Areas, Departments of Commerce and Labor."

We have reviewed the comments of the Economic Development Administration and believe that they are appropriately responsive to the matters discussed in the report.

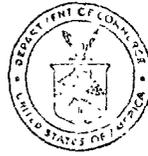
Sincerely yours,

A handwritten signature in cursive script, appearing to read "Larry A. Gobe".

Larry A. Gobe

Attachment

APPENDIX I



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

NOV 16 1970

Mr. Henry Eschwege
Associate Director, Civil Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

The Economic Development Administration hereby submits its comments on the General Accounting Office Draft Report to the Congress of September 22, 1970, on the "Need to Improve Data Used as a Basis for Providing Federal Assistance to Economically Depressed Areas."

Representatives of EDA and GAO have met on two occasions to discuss the draft report. As a result of these meetings, certain changes have been made in the draft report by the GAO representatives to reflect, among other things, EDA's concern with income data currently used in designating re-development areas and the fact that EDA is presently exploring the use of other income data as a basis for designation.

Specifically, GAO recommends in the draft report that the Assistant Secretary for Economic Development should

- 1) review and study the problem of developing current income data,
- 2) consider the feasibility of using more current per capita income data developed by the Office of Business Economics (OBE) instead of decennial census figures for designation of areas on the basis of low income, and
- 3) recommend changes in legislation as warranted by the results of the Department's study.

GAO also recommends that the Secretary of Labor initiate an in-depth review of the practices and procedures of State employment security agencies with respect to the reliability of unemployment statistics.

Mr. Henry Eschwege

The following comments by EDA relate only to that portion of the draft report concerning income statistics and are primarily a reemphasis of points now reflected in the draft report. We necessarily defer to the Department of Labor as to the matter of unemployment data because, as is clearly set forth in section 401(a)(1) of the Public Works and Economic Development Act of 1965, as amended, "the Secretary of Labor shall find the facts and provide the data to be used by the Secretary of Commerce in making the determinations required by this subsection." However, it should be noted that in support of these services, EDA has advanced to the Department of Labor \$800,000 - \$900,000 annually since Fiscal Year 1967.

With respect to the use by EDA of median family income data (1959 data as shown in the 1960 Census of the Population), we call your attention to the fact that section 401(a)(2) of the EDA Act presently requires EDA to use only median family income data and does not allow EDA to use per capita income data as suggested by GAO.

As the draft report acknowledges, 1960 Census data are the most recent data available for all areas (counties) in the United States. The draft report also notes that to date nothing has been accomplished to update the 1960 Census median family income data. While this is correct and our operating procedures continue to be based on the 1960 Census data, we have explored the possibility of developing and utilizing other sources of income data. The draft report recognizes that in 1967 EDA initiated a program with the Office of Business Economics of the Department of Commerce for the development of per capita income estimates on a county basis. Per capita income data for many, but not all counties, became available in 1968. EDA has been the primary single contributor to this effort and through Fiscal Year 1971 has obligated \$645,000 to OBE to secure these data. A joint EDA/OBE work group is working on the development of per capita income data. However, there remains the difficult task of evaluating the quality of the estimates and their comparability with those developed from Census procedures which yield estimates of median family income. Much work remains before this newly developed series can be considered as an acceptable substitute for the family income statistics currently used to reflect area economic distress.

APPENDIX I

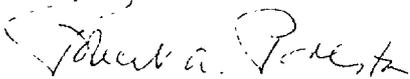
Mr. Henry Eschwege

We would also point to an earlier attempt in 1963 - 1964 by the Area Redevelopment Administration (ARA), EDA's predecessor agency, to secure and utilize Internal Revenue data to develop income estimates. This effort was largely unsuccessful due to the difficulties in securing and processing the information as well as the many problems involved in resolving the technical questions associated with this data source. During this period ARA also favored the proposed quinquennial census in order to secure more recent income estimates.

Our recent investigations suggest that the relative income rankings of counties remain fairly stable and certainly changes are not as dynamic as are rates of unemployment. Nevertheless, we agree in principle that it would be desirable to have more recent income information on a regular basis. Unfortunately, the costs of securing such information by duplicating Census procedures and techniques (e.g. surveys) appears to be prohibitive. However, by utilizing other data sources, such as from OBE, we hope to develop reasonably accurate income estimates to serve as measures of area economic distress.

EDA is currently studying its legislative authority with a view toward changing the criteria for the designation of redevelopment areas. However, we are not in a position at this time to make definitive recommendations for such changes pending completion of this study.

Sincerely,



Robert A. Podesta
Assistant Secretary
for Economic Development

U.S. DEPARTMENT OF LABOR
OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION
WASHINGTON, D. C. 20210



DEC 2 1970

Mr. Henry Eschwege
Associate Director
Civil Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

We very much appreciate the opportunity to review and comment upon the General Accounting Office (GAO) draft report concerning the "Need to Improve Data Used as a Basis for Providing Federal Assistance to Economically Depressed Areas," which you forwarded with your letter of September 22. We were also pleased to have an opportunity to meet with, and work with your staff to explore in detail some of the issues and underlying problems which were pointed up by the GAO review.

The enclosed statement summarizes the Department of Labor's response to the findings and recommendations of your report. We have limited our comments to those portions of the report which relate to the responsibilities of the Department and the affiliated State employment security agencies for the preparation and utilization of area unemployment statistics in the implementation of the Public Works and Economic Development Act of 1965. As you know, the Department has no specific responsibility under this legislation with respect to income statistics used in determining area eligibility.

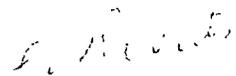
We have also taken cognizance, in our response, of the comments of the two State employment security agencies where the GAO conducted a comprehensive audit of area unemployment estimating procedures in connection with the preparation of this report. Copies of these State replies have been furnished to members of your staff.

You may be certain that we shall--in line with your recommendations and within the constraints of budget resources and staffing ceilings--take appropriate steps to "assure uniformity in application of prescribed

APPENDIX II

estimating techniques and to improve the accuracy and comparability of the results obtained." We shall also, as you recommended, consider the comments in the GAO report "as part of the Department's evaluation of the unemployment estimating procedures" which is currently being conducted.

Sincerely,


LEO R. WERTS
Assistant Secretary for Administration

Enclosure

Department of Labor Response to GAO Draft Report
on "How to Improve Data Used as a Basis for
Federal Assistance to Economically Depressed Areas"

Background Information

The fact-finding responsibilities of the Department of Labor for the identification of areas of substantial or persistent unemployment under the Public Works and Economic Development Act of 1965 (EDA) are carried out in cooperation with affiliated State employment security agencies. As noted in the GAO report, the concepts and definitions used by the Department and affiliated State agencies in measuring unemployment on a local area basis for the EDA program are identical with those used in developing National unemployment statistics. Because of cost factors, however, the area data are developed on the basis of a different methodology. It would be prohibitively expensive to try to produce all area unemployment estimates required for the implementation of EDA, through the sample household survey procedures used to develop National estimates.

At present, most EDA areas are small rural centers. The Labor Department's unemployment estimating procedures were initially designed for large metropolitan areas. This methodology is dependent to a varying extent on base data relating to unemployment insurance coverage. Because such coverage is more widespread in large metropolitan areas, the estimates for such areas tend to be more reliable than those for small areas.

The two States selected for the detailed GAO audit have a very significant number of such small areas. Together these two States accounted for close to 10 percent of all areas (60 of 634) reviewed for EDA eligibility on the basis of calendar year 1969 data. While the problems experienced in these States are characteristic of those in many other States, the difficulties in resolving these problems in the two audited States were compounded by the sizable number of small areas handled under the program.

Improving the Area Unemployment Estimates

In the "Recommendations and Suggestions" section (p.7) and the "Conclusions" and "Recommendations" sections (p.48,49) of their report, the GAO states that "in view of the study being conducted under the sponsorship of the Department of Labor to evaluate the adequacy of the methodology currently being used for estimating unemployment, GAO is making no recommendation for any major improvements in the methodology. GAO recommends that the Department of Labor consider the comments included in this report as part of its program's evaluation of the unemployment estimating procedures." The GAO report also stated that there is need to expedite the efforts by the Department to improve the unemployment estimates for small areas, and to "convert research findings into timely and meaningful action."

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The Bureau's research and technical calls for this type of conversion of research findings into the development of improved area unemployment estimating procedures by the end of this fiscal year. These improvements will be described in the appendix of the 1969 report, as well as other research results being developed by the Department and the affiliated State employment security agencies to improve the soundness of estimates for local areas. The procedure for improvement in procedures was put into effect in 1967-68 and related to estimating unemployment among working people at home and on the job into the labor market--an idea which accounts for a substantial share of the total. This change was designed to take account of structural changes in youth unemployment which had occurred since the area unemployment methodology was initially developed.

The Department has initiated and sponsored, since the 1967 revision, a number of other major studies designed to produce information which could be used to improve the present methodology. These studies include:

- . A study conducted by the National Industrial Conference Board, to determine whether alternate techniques, using other economic indicators in lieu of unemployment insurance and Department Service operating data, could be used as a basis for estimating unemployment for States and local areas.

- . Collection of unemployment data in selected areas by the Census Bureau for the years 1964-68, through the household survey procedures used in developing national unemployment statistics.

- . A special study by the Research Triangle Institute (RTI) of North Carolina on unemployment in rural counties in that State.

- . Research studies by Mississippi State University, also designed to explore the problem of preparing unemployment estimates in rural counties.

- . Special studies by Job Market Study Centers in the affiliated North Carolina and Pennsylvania employment security agencies, to test alternative approaches for developing base data for improving components of the area unemployment estimating procedure.

- . Household surveys of unemployment in 15 rural counties in various sections of the country were conducted in 1969 on the basis of a special survey procedure developed and tested by the North Carolina Job Market Study Center in cooperation with National Office Department of Labor staff.

Findings under these household surveys and other studies are now being analyzed in detail by consultants in the University of Houston in cooperation with Bureau present staff. A comprehensive report, expected to include recommendations for the improvements in the methodology for estimating unemployment in small rural areas is scheduled for completion by January 1, 1971. An additional report relating to the overall system for States and local areas, which should include additional improvements in smaller area procedures, should be completed by July 1, 1971.

A significant improvement in the reliability of area unemployment data for small areas should result from the recent passage of the Employment Security Amendments of 1970 (PL 91-377). As was pointed out earlier, the accuracy of the area unemployment data is closely related to the number of local workers covered by unemployment insurance. The new legislation provides for the largest single increase in coverage since the inception of unemployment insurance program. Beginning January 1, 1971, about 5 million more jobs (based on estimates made for calendar year 1969) will be added to the almost 60 million presently covered under Federal and State unemployment insurance laws. About 4 million of these 5 million newly covered jobs will be in agricultural processing, small firms, non-profit institutions and State and local government. These groups account for a large share of job opportunities in small rural areas.

With the passage of the new law, about 85 percent of wage and salary employment (excluding Federal civilian employment and military personnel) will be covered by unemployment insurance.

Monitoring of Area Unemployment Data

Even with these expected improvements, the Department of Labor agrees that there is a very real need for improved procedures to review and monitor, at the National level, the "procedures and practices of the State employment security agencies relating to the development of unemployment estimates . . . to promote and ensure uniformity in the application of prescribed estimating techniques and to improve the accuracy and comparability of the results obtained," as called for in the GAO report (pages 7 and 49-50). The in-depth review of these procedures and practices as recommended by the GAO will be implemented by the Department to the maximum extent feasible, consistent with existing budgetary constraints and staffing ceilings. At the State level also, available staff and budgetary resources are of course, a limiting factor on the amount and quality of work which can be done under this program. On the average, State staff resources available for this program amounted to less than one person per State.

Exploring Other Approaches to EDA Area Eligibility

Improvements in the area unemployment measures, the GAO report "Conclusions" section (p. 46) indicates, may "represent only a partial solution to the problem of developing a meaningful measure of economic distress which can be equitably and fairly administered and that changes in the criteria currently set by the legislation may be required." A Department of Labor letter to EDA, cited in the GAO report (p. 25), points out that in many of the small rural areas, the major manpower problem "has always been one of under-employment and under-utilization of available manpower resources, rather than unemployment. Intermittent employment at low level jobs, and seasonal fluctuations may hold down the local unemployment rate and tend to mask widespread poverty in many such areas." This is recognized,

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in part, in the basic EIA legislation itself, which authorized the designation of "economically distressed areas on the basis of low median family income." That report was not proved entirely satisfactory, however, as the 1960 data were not, since income data are available only once every 10 years, as part of the Decennial Census of Population.

A little over a year ago, the Department of Labor initiated, in cooperation with the affiliated New York Employment Security Agency, a new research study to try to develop new measures of under-employment and under-utilization of manpower, which could be used together with, or in lieu of, the unemployment data as a basis for determining EIA eligibility. This special study of possible alternative approaches to identifying rural areas which may have significant economic and social problems that may merit EIA assistance is being conducted by the Stanford Research Institute. The study will re-examine relevant data on rural counties available from Commerce, Agriculture, Labor, and affiliated State agencies, as well as other sources. The objective of this re-examination is to test the feasibility of establishing criteria for EIA eligibility relating to under-employment, using such measures as: (1) male labor force participation, (2) percent of families in poverty, (3) welfare recipients, (4) outmigration and population change data and (5) intra-State comparison of income data.

In order to be suitable for the purpose needed, any measure considered for ultimate selection should, have the following general characteristics:

- . It should be based on data available in all States on a county-by-county basis.
- . It should be based on relatively current information (i.e., not more than several years old).
- . It can be updated annually (although data may be lagged by a year or two).
- . It can be compiled at relatively low cost, by State employment security agencies and/or other responsible State or local agencies.
- . It should be based on data and concepts that are generally understandable.

Research activities on this study are now nearing completion. The final report on the study findings is scheduled for preparation by January 1, 1961.

Improved Utilization of Existing Data

Improving Utilization of Data. The GAO report raises a number of questions regarding the accuracy of some of the data used to develop the three unemployment estimates used in EIA determinations. Some of

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As has been indicated earlier, however, the results achieved through this methodology, tend to decrease in reliability as the size of the area decreases. For very small areas--those with a population of less than 5,000--it may be desirable to use other approaches to achieve the degree of precision needed. About 80 of the 634 areas reviewed for eligibility on the basis of calendar year 1969 data were in this under 5,000 population-size category. These alternative approaches could relate to those being explored in the Stanford Research Institute project described above.

Another possible approach would involve utilization of the limited household survey method pioneered by the North Carolina employment security agency. Such household surveys could also be used in other areas to check on and verify the results achieved by the standard prescribed Department of Labor methodology, as suggested in the GAO report. A program for such household surveys, or providing, as the GAO report recommends, for such "surveys in selected areas on a cyclical basis" (p. 45), would require some additional funding. It should, however, be "economically feasible" as the GAO report suggests. The Department of Labor will explore the possibility of obtaining additional resources for this purpose at the next available opportunity.

It may also be possible in such small and other rural areas to change existing regulations relating to population loss to take account of the 1970 Census data now becoming available on a County-by-County basis. If revised, such regulations could also permit taking into account annual revisions of county population data as they become available in the 1970's without a change in the law.

U. S. DEPARTMENT OF LABOR

November 20, 1970

PRINCIPAL OFFICIALS OF
THE DEPARTMENTS OF COMMERCE AND LABOR
HAVING RESPONSIBILITY FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF COMMERCE</u>		
SECRETARY OF COMMERCE:		
Maurice H. Stans	Jan. 1969	Present
C. R. Smith	Mar. 1968	Jan. 1969
Alexander B. Trowbridge	June 1967	Mar. 1968
Alexander B. Trowbridge (acting)	Feb. 1967	June 1967
John T. Connor	Jan. 1965	Jan. 1967
ASSISTANT SECRETARY FOR ECO- NOMIC DEVELOPMENT (note a):		
Robert A. Podesta	Mar. 1969	Present
Ross D. Davis	Oct. 1966	Mar. 1969
Eugene P. Foley	Sept. 1965	Oct. 1966
<u>DEPARTMENT OF LABOR</u>		
SECRETARY OF LABOR:		
James D. Hodgson	July 1970	Present
George P. Shultz	Jan. 1969	July 1970
W. Willard Wirtz	Sept. 1962	Jan. 1969
ASSISTANT SECRETARY FOR MANPOWER:		
Malcolm R. Lovell (acting)	Aug. 1970	Present
Arnold R. Weber	Feb. 1969	July 1970
Stanley H. Ruttenberg	June 1966	Jan. 1969

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Tenure of office
From To

DEPARTMENT OF LABOR (continued)

MANPOWER ADMINISTRATOR:

Malcolm R. Lovell	June 1969	Present
J. Nicholas Peet	Feb. 1969	June 1969
William Kolberg (acting)	Jan. 1969	Feb. 1969
Stanley H. Ruttenberg	Jan. 1965	Jan. 1969

BUREAU OF EMPLOYMENT SECURITY

ADMINISTRATOR (note b):

Robert C. Goodwin	Aug. 1949	Mar. 1969
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^aPosition established effective September 1, 1965, as Assistant Secretary and Director of Economic Development. Redesignated as Assistant Secretary for Economic Development, effective December 22, 1966.

^bUnder a reorganization plan effective March 17, 1969, in the national office and March 24, 1969, in the field, the Bureau of Employment Security was discontinued as a separate entity within the Department of Labor. The functions of the Bureau were assumed by the U.S. Training and Employment Service and the Unemployment Insurance Service components within the Manpower Administration created by the reorganization plan.